HOUSE OF COMMONS

Levelling Up, Housing and Communities Committee

Oral evidence: Financial reporting and audit in local authorities, HC 1196

Monday 26 June 2023

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Watch the meeting

Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Mrs Natalie Elphicke; Kate Hollern; Andrew Lewer; Mary Robinson; Nadia Whittome.

Questions 145 – 208

Witnesses

I: Michael Hudson, Executive Director Finance and Resources, Cambridgeshire County Council; Alison Scott, Shared Director of Finance, Three Rivers District Council; Gerald Almeroth, Executive Director Finance and Resources, Westminster City Council.

II: Councillor Abi Brown, Councillor, Stoke-on-Trent City Council; Councillor Tudor Evans, Leader of the Council, Plymouth City Council; Councillor Richard Wenham, Councillor, Central Bedfordshire Council.

Examination of Witnesses

Witnesses: Michael Hudson, Alison Scott and Gerald Almeroth.

Chair: Welcome, everyone, to this afternoon's session of the Levelling Up, Housing and Communities Select Committee. This afternoon we have a further evidence session on financial reporting and audit in local authorities. It may not always seem like the most exciting of subjects—it is probably a little bit technical—but, in the end, it is really important because it is the system that is supposed to give assurance that the money that our councils are spending is spent appropriately and properly on the issues that we want to see it spent on, and that our taxpayers' money, in various forms, is used appropriately as well.

I will ask Committee members to put on record any interests that they may have that may be relevant to this inquiry, and then I will come over to our first panel of witnesses. I am a vice-president of the Local Government Association.

Ian Byrne: I have nothing to declare.

Kate Hollern: I employ a councillor in my office.

Nadia Whittome: I am a board member of One Nottingham.

Bob Blackman: I am a vice-president of the LGA and I employ councillors in my office.

Andrew Lewer: I am a vice-president of the LGA.

Q145 **Chair:** We have two panels this afternoon. Our first panel is now with us, and thank you very much, all of you, for coming. Could you just introduce yourselves and say the organisation that you are from today? That would be really helpful.

Gerald Almeroth: My name is Gerald Almeroth. I am the executive director of finance and resources for Westminster City Council and also the section 151 officer.

Michael Hudson: I am Michael Hudson. I am the executive director for finance and resources at Cambridgeshire County Council. I am also president of the Society of County Treasurers. I have spent 20 years as a section 151 officer, and 12 years before that as an external auditor with the Audit Commission and a private firm.

Alison Scott: I am Alison Scott. I am shared director of finance for Three Rivers District Council and Watford Borough Council. I am a past president of the Society of District Council Treasurers and, prior to working where I do now, I worked for CIPFA and was head of technical there.

Q146 **Chair:** Thank you very much for coming this afternoon. You are all very welcome. I have a nice, easy question to start off with. What is the purpose of local authority accounts in supporting local accountability and democracy?

Gerald Almeroth: I have seen other answers to this question.

Chair: That is cheating, really.

Gerald Almeroth: It is all on the public record. There is a theme, is there not? It is the assurance that people need. It is the trust that you have in the local government space. I was trying to think of an analogy with the private sector. Big private sector companies need to have their accounts audited and to make sure that they are correct, so that the shareholders have confidence in what they are being told. The taxpayer is the shareholder for local government accounts, whether that is a resident, a business or the public generally. The important thing is to make sure that the public have assurance around those financial records and statements.

Michael Hudson: Like Gerald, I have seen the previous answers. For me, it is to present that prior year financial position and performance to enable and to give confidence to councillors, auditors and residents to perform their own particular levels of checks and balances. We might come on to what that looks like.

It has an enormous amount of information that is often not fully recognised in today's world. Its previous purpose as one of the statutory regulatory reports has probably had a much bigger day, but the information in there, from pension funds to reserves and to the borrowing and investments, is still crucial information, whichever public or audit environment you sit in, because it gives us one of our data points in terms of judging an authority.

It is not the only point, though. While we will come on to talk about the performance, it is one of the points that enables us to put into picture where a local authority has been. That purpose may have got lost in the complexity and the fact that there is now so much of a focus on the forward look in terms of the setting and the monitoring of the budget. Of course, the outturn is reported far sooner than the statement of accounts. One of the things that is absolutely overlooked in the statement of accounts is the annual governance statement, which is presented alongside.

Chair: We are going to come on to look at how the accounts might be improved in future in the next set of questions.

Alison Scott: They used to have a lot of value. With the delays in audit, some of that value around the assurance—the issues that you had if you did not have full assurance on your fully unqualified set of accounts—has gone.

In terms of value to the public, I very much support the idea of the Redmond statement giving the public something that is focused on the areas that they are most concerned with. The majority of queries that we now get from the public come through freedom of information as a result of publishing all expenditure above £500. We get a lot of response when we set the budgets and tell people what we are spending on.

As a CFO 151, I would like to see that same engagement with an end-of-year statement. I hope that something like the Redmond statement might give that, in which case we then need to look at what the purpose of the full set of IFRS accounts is.

Q147 **Chair:** The next set of questions is about how we can improve the accounts, but you have all mentioned producing accounts for the council and for the public. Within the council, the officers and councillors might have a different engagement, but who are they really produced for? Who do you gear them up for? You are going to write things in a different way, are you not, for different audiences? Does that happen or do you simply give them one lot and hope that they can work it out?

Alison Scott: The introduction to the accounts and the annual governance statement are written with the public in mind. When you get on to the financial accounts, particularly in terms of the balance sheet, we have some councillors who have really engaged with that and taken time to understand. They will be really interested. They will try to allocate that back to our budget outturns or our budget reporting, so that they can see that chain through. The other people who we primarily prepare for are the auditors.

Q148 **Chair:** What about other council officers?

Alison Scott: Other council officers would look more at our budget outturn reports, other than where we have commercial investments and that type of thing. Those balance sheet items will be very interesting to officers and councillors involved in those decisions. For those, we produce that information quarterly, so that annual is almost after the event for them.

Michael Hudson: I agree with what Alison was just saying there, and especially that introductory aspect. The foreword to the accounts is our opportunity to draw out some of the large capital spending that may have gone on throughout the year, or some of the initiatives or savings programmes. In some cases, that is where the other officers of the council can contribute to the statement of accounts and draw them in.

The remainder—the income and expenditure and the notes to the accounts—is predominantly compiled for the auditors and their review in terms of IFRS compliance. Beyond that, we are looking at maybe something for our peers in terms of comparators, where we have certain groupings and certain aspects such as pension fund for our districts, but it is for predominantly councillors and auditors.

Gerald Almeroth: The accounts statement is very much a technical statement with the statutory backing that it has. We report it through to our audit committee, which is not an executive body of the council, but it is the audit committee that reports directly to full council. It is a regulatory committee and it has proportionate councillors on there from the administration and the opposition. That is an important distinction in terms of it reporting through to the audit committee and them seeing the accounts as well as the external auditors' report on the accounts to give the whole member body or representation an assurance that they are a true and fair record of the statements of the council.

Chair: We will come on to the issue of the audit panel, et cetera, in a later question, but let us move on now to questions about the adequacy of local authority accounts.

Q149 **Nadia Whittome:** We have heard about what the purpose of local authority accounts should be. How are local authorities falling short of those desired purposes? What could they do to improve?

Gerald Almeroth: When you say "falling short", what is the thought behind that, just so I can answer that correctly?

Q150 **Nadia Whittome:** For example, with regard to section 25 and any gaps in checks and balances that that presents, and anything else that you think, according to the purpose of local authority accounts, local authorities are not up to standards on.

Gerald Almeroth: There are lots of issues in and around that. Section 25 refers to the statement on reserves and adequacy of reserves, which is something that we talk about in the budget report. The section 151 officer has the responsibility to do that in order to say that the budget going forward is robust, and that we have looked at all the risks and have adequate reserves to cover any of those risks.

The statement of accounts is a presentation of what has happened in the past as at some date. That will accurately record what happened that year, but the forward look becomes part of the budget process. That is probably where that issue comes more to life.

Michael Hudson: I struggle with that "falling short", because the accounts are not our only piece of information. We will be doing budget monitoring throughout the year, as well as budget setting. We will be doing appraisal of key risk areas, such as if we have commercial ventures. We do treasury management quarterly reports and grant returns. Our information and what we use to judge the section 151 officers and to advise our politicians and senior colleagues on is based on real-time and future-looking data as part of that.

While the statement of accounts is a very key document in the statutory year of a local authority, it is not something that holds us back in terms of not having it audited. We will make certain judgments and assessments from discussions with our auditors, but 99 times out of 100 the issues that we are dealing with—and we will come on to this, I am sure—are balance sheet matters, not income and expenditure matters. Therefore, the focus that we have in terms of the whole range of information available to us enables us to perform our job, so I do not think that we are falling short.

Q151 **Nadia Whittome:** In a previous question, you were going to speak about some improvements that could be made and were advised that that would be more appropriate for this question. What were you going to say?

Alison Scott: Just on the "falling short" issue, our statement of accounts should ideally be the full stop on all of that work that we have done around our medium-term financial strategy and our reporting during the year. It should just be that external validation of what we have been saying for the whole year and our budget planning. That is where we have got to the problem whereby, with audits being so delayed, we have lost that validation.

Maybe the whole system is falling short in terms of being able to have that external third-party validation that what we are reporting in our outturn position is the same as what is in the accounts, and being able to make the link between the two. We have that happening so late that it has lost its potency in terms of that external validation and check.

Michael Hudson: In terms of the improvements and where we find ourselves with audit delays, there are two aspects. There is the value for money that has been spoken about before at this Committee, but something that maybe has not is the annual governance statement. If we look across the sector at some of the failings that are out there and that have occurred, would it have been the statement of accounts where you would have identified some of those issues? There are potentially warning signs, but, in most cases, in the private or public sector, it is the culture, the management override and the lack of governance that drive the incorrect decision-making.

The annual governance statement, which has been around for over 20 years now and came out of the Nolan review, seems to be one of those documents that is nodded about, referred to and presented on the same agenda, but is not audited. It should and does carry an awful lot of weight in terms of the where the organisation sits, the role of the monitoring officer, the section 151 and the head of paid service, and its overall governance in terms of decision-making. What it uses to do that decision-making should be open and transparent and should be a key focus for the audit as well as scrutiny.

Alison Scott: On both the authorities that I work with, we have taken that annual governance statement through that audit committee process ahead of the accounts. We have much more engagement with other officers, who have to write their submissions into it, as well as with the audit committee members and cabinet and policy resources, which are two different committee formats with my two authorities. That is where they engage. That is where they are really interested. That is where the discussion comes, because they see that as very key to whether the processes are right within the authority.

Q152 **Nadia Whittome:** Should accounting requirements change so that financial reporting to local authorities is separate to financial reporting according to generally accepted standards?

Alison Scott: There is a value in generally accepted standards. They are the gold standard in financial reporting. Apologies to the two gentlemen next to me, but it is a district point of view. The big issue that we have is with how the materiality levels are applied to those statements. For Watford, our threshold for reporting audit differences or misstatement is £87,000. For Three Rivers, it is £50,000. It is based on the revenue accounts—what we are charging to the taxpayer—which is perfectly correct for the revenue account, but that same figure is then applied to the balance sheet.

Watford’s balance sheet is nearly £1 billion. You cannot audit a £1 billion balance sheet to a £50,000 threshold for stating differences, because we are getting into that whole cycle of more and more evidence and more and more challenge at a level that does not make a difference to decision-making. Standards are very useful and very good—they are gold plated—but we should be applying them proportionately.

Michael Hudson: In terms of the regulator's view of IFRS and how they are applied, that gets to the nub of one of the current issues in terms of the causes of delay and the complexity. If we look at infrastructure assets in particular, or at pension valuations, we talk about value for money of local authorities, but in terms of the added value of the audit process itself to the reader, be that the public or the councillors in terms of making decisions, we should absolutely have a set of accounts that complies with a set of standards.

That should give us consistency across the sector, but we need to have a recognition of the type and nature of public service and how accounting is then carried through into the income and expenditure account, which means that that might need certain overrides or differences. At the moment, our auditors are faced with FRC regulation that they are fearful of contradicting, which is driving cost, delay and uncertainty into the production of our accounts. That is one area that absolutely has to be addressed.

Gerald Almeroth: The accounts have certainly become more complicated. We have to abide by and meet IFRS accounting rules. That means that the accounts become less understandable to the normal person on the street, but that is okay and councils have dealt with that. That is not the cause of the issues that we have now with delayed audits.

While I agree with the Redmond report, which says that councils should produce summary sets of accounts that are more understandable to the public and, if they want to dive into the technical detail with a full statement of accounts, they can, we should be helping the public more to be able to understand those things, and the Redmond review contains recommendations that enable us to do that.

Westminster's accounts this year are 233 pages long. That is longer than BP's accounts. It is no wonder that residents do not want to read them, because they are far too technical and do not really tell them much. The whole process of preparing your accounts within a couple of months of the end of the year and having them audited and signed off by, effectively, an independent set of councillors on the audit committee within a few months of that is a very important process for giving assurance that local government is being run well and run properly.

Q153 **Nadia Whittome:** Should there be more focus on disclosing issues regarding sound governance?

Michael Hudson: I will kick off, because I raise the annual governance statement. You only have to read the Thurrock report issued last week and its focus on that. That is as much a duty upon the statutory officers as it is on the external auditors. We saw a good example of that with the

Bournemouth incident last year. Both parties should be calling out and making comments on governance and decision-making.

Alison Scott: If I was looking at my ideal world in local government accountability, we would have something like the Redmond statement that gave taxpayers what they needed. The current opinion on value for money is not about value for money, but on the arrangements for value for money. That might sound like a technicality, but it is about systems and processes rather than what we are achieving, so more focus around that on the governance statement.

The accounts would be that straight technical IFRS set of accounts that are just that final accountability to say, "What is in all those statements has been independently verified". At the moment, the statement of accounts tries to be all things to all people and, in doing that, gains lots of complexity. It almost loses its focus as to who it is supposed to be being produced for and who its focus is on.

Gerald Almeroth: I completely agree with both of those responses. The only thing that I would add is that auditing the financial statements is an important thing, but the value for money conclusion, which sits alongside that, is obtained through the auditor's good relationship with senior officers of the council, so that they know what is going on. That is an important part of how that is framed. The information in that is about how things are being governed, decision-making and risks, all of which are very live things that should be picked up in that process.

Q154 **Mary Robinson:** Apologies for missing the beginning of the meeting. I just want to go back to some comments around the relationship between the financial officers and the auditors. Alison, you described it as a full stop and it is then validated by the auditors, and Michael seemed to intimate that there was more of a discussion going on between the auditor and the officers of the council. Is there any best practice for this, or is it what works?

Alison Scott: By "full stop", I meant the year and the finances for that year. One of the things that we have lost—and our auditors recognise it as well—is room for that ongoing dialogue. There is less room to talk to them about the stuff that we are doing on the ground, because all the focus is on trying to catch up the accounts. When we have done major projects, that dialogue has been before we have taken them to committee. We have talked them through the process and they have understood it, and that is very valuable.

That is where you get the real value in terms of looking at value for money—sorry, that was a bit of a mouthful—because it is far better that you have that conversation with auditors before you make the decision than coming back, looking at it later and deciding that there is an issue. That relationship is very much more valuable when it is an ongoing one. The "full stop" was just in terms of the full stop for the financial year.

Q155 **Mary Robinson:** Thank you for clarifying that. I am trying to get how important that relationship is. People have harked back to the district auditors and the fact that they would have that conversation, et cetera. Is that really important?

Gerald Almeroth: It is really important. I said that at the end of my last answer. The relationship that you have with your lead auditor is very important. Even when you are thinking of doing something as a council that might be slightly different to what you would normally do, you would have a conversation with your auditor, and they would help you. That kind of transparency and honesty is very important. That builds a relationship that is pragmatic, and you are there together to jointly solve issues and problems, but you still know that you have your own different professional responsibilities.

Back in the old days of the Audit Commission and the district auditors, the time and space were there to do that. You would have robust conversations, but that was fine, because you were working through things. I am afraid that, at the moment, the auditors do not have time and space to do that and, potentially, the culture is not right in those private audit firms to do that either.

Michael Hudson: Just to pick up on that last point—and I say this having been an external auditor for 12 years—we used to be based in the council that we would audit, and that would probably be our base for six months of the year, with the other six months in the NHS. We were always on site. It is that sounding board and that critical friend that we really appreciate. In fact, I had a conversation only before coming here with my lead auditor around a post-balance sheet, which will be a disclosure in the 2023-24 accounts. That was really helpful and valuable.

Just picking up Gerald's point, there used to be a lot of local pragmatism and advice. Now, I will often need to take that away to the technical team and it will be, "I will come back to you". That is recognising that there is a whole wealth of talent and areas to draw from within the firms. Sometimes, you just want that quick answer.

Alison Scott: It has become focused on the technical accounting, whereas, before, it was that much bigger picture. That is about capacity within audit firms, and also that regulatory side.

Q156 **Chair:** Can I just go back to the accounts themselves? I was surprised that you had not asked for something more radical. What you said to us is that the system of accounting standards uses international standards. You have all sorts of requirements for local authorities, some of which go back many years. They have been pushed together and overlaid one on top of the other. You have a situation where you end up with 200-page accounts that nobody apart from the financial officer and the auditor read—and they are not even much use to them, from what I can work out. Why is something radical not needed?

Alison Scott: That was where I was suggesting that we might want to focus on something like the Redmond statement, which is our accountability statement. At the moment, a lot of the difficulty and confusion comes from a lot of the ins and outs in local authority—what, colloquially, you might term the "funny money", where things do not get charged to the taxpayer, so have to be reversed out.

If we cut all that out and produced straightforward accounts at a sensible materiality level and with pragmatism for auditors, we would gain the value of those accounts and that information. I will use some of that fair value information within the accounts, particularly around investment assets. That is important to me and is good management information, but it is getting it at the right level. It is not the fault of the system completely, but how we have applied the system. We have got ourselves into an overcomplexity within the system and we have lost the pragmatism within it.

Michael Hudson: If they are watching this, my team will at some point be going, "Really?" but I do not think that the accounts production is necessarily as complex as you might make out. We have a window, we have detailed planning, we know who to get the information off and we produce that. What we have seen is that the requirement around some of the estimation, particularly around infrastructure and pension fund valuations, is now taking that to the extreme and is introducing more costly compilation of the accounts.

Shortened reporting is something that has always been within our gift. I remember Birmingham producing a shortened statement of accounts 10 or 15 years ago, which I was exploring and did something similar in a previous authority. There need to be standards and clear guidance, because we will all have different arrangements, from the riskier, more commercial-type ventures, which could relate to a need for valuations around property, to those less risky authorities. You still need to apply the standards. It is then the auditor's expectations of how that is then carried through that is now bringing in the complexity to our production of the accounts.

We now have, touching wood, pretty much an element whereby these can be produced in eight to 10 weeks to a very good standard, and we would normally move on. What we are now finding is that it is that element that is now dragging on, which means that the accountants are just doing accounts for six, seven or nine months of the year, or even longer.

Gerald Almeroth: This has been looked at before. If you are going to produce a set of accounts in a different way, there is still a lot of statutory regulation and standards that you have to meet. Therefore, instead of 233 pages, it will be 175 pages. The effort going into that just is not worth it. We are aiming to produce an eight-page summary set of accounts to go on our website for the public to look at, which will try to make sense for them.

If there are any questions that arise from that—and that would be great, because we would like residents to ask questions—then we can go into more detail. It would be a lot of hard work to try to come up with a different system that really achieves much more than what we have now.

Alison Scott: Just coming back on that issue about the auditors challenging our experts, we spend about £30,000 a year valuing our operational assets. They are not investment assets that we may be looking to sell, but things like leisure centres or depots. Our additional audit fees within Hertfordshire are about £20,000 to £50,000 a year, mostly challenging our valuer's view of the value of those assets. There has to be a question as to whether that is value to the public purse.

Q157 **Chair:** Do you have to do that, or is that a choice? Is there a discretion there?

Alison Scott: We have to value our assets.

Michael Hudson: It came in only about five years ago. I might be a year or so out in that. Previous to that, when I was an auditor, the same question was being asked of me by my auditors: "Where do you get your assurance from?" Now, even though I give that answer about, "We go out, we tender, we check this, and we do that and we do this", we will test that out.

Q158 **Chair:** Is that a change to the statutory requirement or a change to the interpretation of it?

Michael Hudson: It is a change to the interpretation.

Gerald Almeroth: It is a change in the regulation and the responsibility that the FRC has set for auditors. We produce a set of valuations that are signed off by a chartered surveyor, and they now have to get their own surveyor to check whether our valuations are as good as they think they are. Then you have two surveyors arguing that they have got it wrong. That is what happens, but it is unnecessary expense and time delay.

Alison Scott: To be fair to the FRC, you can understand why that is important in the private sector. A company could go under. Those assets are its value of what is in the company, if it goes under. I do not think that it reflects the local authority position, where our statutory duties carry on. Any debts and liabilities carry on with those statutory duties, so the going concern for a local authority should not be as high as it is for a private sector company.

Q159 **Nadia Whittome:** What should the purpose of local authority audit be in supporting local accountability and democracy?

Gerald Almeroth: It is a very important part of the process that gives assurance to the public and the taxpayer that the council's accounts are correct and a true record of its financial affairs at that point in time and for that year. It is a very important assurance that we get from that.

The other element of the audit is the value for money conclusion, which is much more about how the council is operating its governance, its risk reviewing strategies and its decision-making, which is an important view as to how the council is organising itself and planning for things in the future. Those two things are a very important part of assurance that the public gets.

Michael Hudson: If I could just add to that, there is the public right of inspection and the opportunity to raise questions with the auditors. For me, it is the "how" in relation to value for money and, without wanting to hark back to the district audit days, the extent of the coverage is now focused much more on the pure statement of accounts than the overall governance and value for money arrangement. That has weakened the position and strength of the auditors as a critical friend not only to the 151 officer but to the authority as a whole.

If I think back to some of the value for money studies that were done, which predate some of the best value work, if we had taken something like the special educational needs and disabilities work, that would have been a specific piece of work by the Audit Commission across organisations, which would have looked to come up with best practice. There were similar studies done 20 years ago, which yielded significant findings for the organisation. That has all been lost over the years, and the auditor's focus is now purely on the statement of accounts.

Alison Scott: While accepting that value for money is perhaps one area that we might wish to look at, it is not so much around the principles but the pragmatism that we have lost in terms of audit focus on those areas that matter most. So much of the audit work for my authorities has been around the pension fund and around operational assets, which is not going to affect decision-making—particularly the pension fund, given that it is a statutory scheme and subject to actuarial valuation completely outside of the accounts. It is getting the audit focus on what matters most to the taxpayer and to Government in terms of oversight of local councils, and getting the focus of that audit right.

I am going to hark back to the old days as well. Previously, we could have binding auditor guidance. For something that came out such as the recent one around pensions, we do all our pensions valuations to satisfy auditors. Previously, something like district audit would have been able to issue auditor guidance—and the NAO has done that—to say that we should not be worrying about this. It is a post-balance sheet event and we should ignore it. Now, unfortunately, auditors cannot take that as read. They have to make their own minds up, because they are worried about FRC valuation. We just need to get that focus back on what really matters to our decision making and to our taxpayers, and that general oversight by Government of local government.

Q160 **Nadia Whittome:** Should all audited accounts be required to be presented to full council for sign-off?

Gerald Almeroth: I do not think that that would necessarily add anything to the process or the assurance that you get. I am not sure when you last went to a full council meeting, but they tend to be very grandstanding and political arenas, with not a lot of receiving reports, going through detail and making decisions. The audit committee is a sub-committee, effectively, of the full council. It has proportionate representation from the different political parties on it, and they can go through a lot more detail and are trained and understand the kinds of questions that they should be asking.

We also have an independent member who has public sector financial expertise on our audit committee. We have the structure right in terms of where that is going. I do not think that going to full council really adds anything. We have many more problems in the audit process than we have in terms of where things go to in full council.

Michael Hudson: I agree with that. What often happens is that the chair of the audit and governance committee or audit and accounts committee will do a statement and update of what has happened in the last period to the full council. If there are issues, the chair will be reporting that as they are going, so there is an opportunity for discussions at full council. In my previous organisation five years ago, that was certainly an issue and was brought to a head at full councils by the chair of audit committee, so there is an avenue there if chosen.

Alison Scott: Until we get to the point where we have audits taking place that are timely to the end of the year, that question is almost meaningless. If I am taking audited accounts to full council two or three years after the end of the financial year, that is meaningless. The world has moved on and it has no meaning. If we were in the position where we were having them audited in good time, we could take them in September relating to the previous financial year, and they may have some benefit. At the moment, the timeliness is just so far gone that that would not have any benefit. We do take the AGS to them, which is probably the more important part of it.

Q161 **Nadia Whittome:** Given that not all local authorities have audit committees, how important is that in those cases? How important is it in enabling councillors to run an effective council?

Gerald Almeroth: There is opportunity for things to be tailored locally. Every council must have an audit function responsibility, whether they call it an audit committee or something else.

Q162 **Nadia Whittome:** Yes, but not always an audit committee.

Gerald Almeroth: No, but there will be a committee that has to perform those functions. As Michael said, if there are issues or if the chair of that committee feels that there are things that they want to raise formally with the wider council, they have that opportunity, because the audit committee, or whatever the committee is, will flow into the full council, and so there is ample opportunity for that to happen.

Alison Scott: Just because something is not on a full council agenda, it does not mean that it does not go out to all councillors. We would certainly send that out to all councillors, even though it is not on a full council agenda, so that everybody has had the chance to see the auditor letter and has received that information, which then gives them the opportunity to ask questions at council, should they wish to. It does not necessarily have to go on the agenda for councillors to see it.

Michael Hudson: I would also add here that we have the pension committee, which covers the accounts, so we must not forget that there is another committee looking at that specific aspect of the accounts as well.

Q163 **Kate Hollern:** I am interested in your comment about it being too late by the time it was produced. You would then question what the purpose is.

Alison Scott: We produce our accounts by the end of May. That is fine. That serves a purpose. That is timely. That is about the same time as we are bringing outturn forward to council, so we can show the two together. The problem at the moment is that audit is so delayed that that timeliness has gone. At the moment, there is no point taking those audited accounts to council, because it is past history by the time that they get there.

Q164 **Kate Hollern:** What does that do to democracy?

Alison Scott: My greatest concern at the moment is that my councillors have almost stopped asking me when the accounts are going to be audited, because of the audit delays. That is the biggest telling point. We have got to a situation where the backlog is so great that we are in danger of losing the purpose and the validity of those accounts.

Michael Hudson: I go back to the point that there are lots of other reports, from budget monitoring to treasury management, that go out. I have certainly been in plenty of places where the budget monitoring position has made a front page of the paper. There are many reports that drive and facilitate local democracy.

Gerald Almeroth: There is significant concern about the audit delays. It is reputationally damaging for local government. It is the only financial statement that is independently reviewed, assessed and certified. Everything else that we do—budget monitoring reports and budget reports—are all signed off by officers and members. It is very important that public assurance is given by that independent auditor sign-off.

Q165 **Ian Byrne:** Just on that, would you agree with the statement that timely audit is absolutely crucial for effective running of a council by councillors?

That is something that is sometimes missed. What we are talking about here is a bit dry, but that is a crucial element of how a councillor and a council can function effectively. Would you agree with that for the record?

Gerald Almeroth: Yes, absolutely.

Alison Scott: Yes.

Michael Hudson: Yes.

Q166 **Ian Byrne:** A bit of what I was going to touch on has been covered. It is fascinating listening to you and the other sessions that we have had. How can we improve the relationship between local authority financial officers and auditors? With the delays, maybe this is an element of what we need to improve. In a short, sharp couple of paragraphs, how could that relationship be improved?

Gerald Almeroth: I have a good relationship with my auditor, the lead auditor and the director of that audit firm. That is important to me to maintain. Where we are with the position of the procurement of private sector auditors through the PSAA contract is that that was a race to the bottom in terms of price. The resources that have gone into those contracts are the minimum amount of resources to do the minimum amount of work. Private firms put in low bids and then try to work out how much extra they can get on top of that. I am not saying that the auditors are doing that, but that is how private contractors work generally.

We are stuck in this system whereby the FRC is a regulator that is overseeing what auditors are doing. Therefore, it feels to me like the auditors also cannot make any judgments for themselves. Therefore, we have very little capacity and very little responsibility in terms of decision-making and pragmatism. Therefore, that whole system has failed, so we are in a difficult situation.

We are hoping that the second procurement that has happened has put more resources into it. Our fees have certainly gone up significantly, so there is a sign there that we have more resources. I agree with the FRC being the system leader. That is a good way forward. I am not sure that they have total responsibility for decision-making and for a pragmatic way through some of those things. I am more hopeful about the future, but the position that we have got ourselves into is that, in summary.

Michael Hudson: I would agree with that. I would just flag up that the FRC still requires legislation to become that system leader, but it is again the autonomy for the district auditor role and the lead role, and the ability for that person to be seen as the lead and not referring everything back to the technical unit.

Ian Byrne: And also having that responsibility.

Michael Hudson: Yes, absolutely having that responsibility. The buck stops there. It used to be that you would have quality review checks. If there were issues, that is where they would be picked up. The default now is that you go back to the technical team for everything.

Alison Scott: For me, it is about allowing both ourselves and our auditors—the auditors have a lot of problems as well; it is not just us—to audit the accounts in a proportionate way and to focus on what matters. For the 2019-20 statement of accounts, which were just signed off, I did six statements to show we were a going concern. By the time we got to the sixth, just the fact that we were here probably counted as a going concern. It is additional work that auditors do not need to spend their time auditing. It is a waste of their time and it is a waste of our time producing.

The other thing that I would like to see is, very much with a district hat on, around proportionality. If we were private sector, we would be looking at FRS 102 for smaller bodies, yet we are audited to full IFRS. It is not a million miles apart, but it is what districts are being asked to do proportionate to their size.

Q167 **Ian Byrne:** Touching on the resource element of what we are talking about, we have touched on this in various questions, but are local authority finance teams resourced to address the backlog as we stand now? Speak honestly.

Michael Hudson: I will speak for county treasurers, who I represent, as well as my own authority. In most cases, the resource exists. It is difficult in terms of recruitment and retention, because it drags on for so long now, and the reputational damage is starting to have an impact in terms of being able to attract people and get them to stay.

As it stands at the moment, in most cases the resource is there and is longstanding, and we have good apprenticeship programmes to bring people through. One of the things that I would flag back to is that, if you look at the mid to late 1980s, when the district auditor was skilling up and staffing up at that point in time to move to the Audit Commission, an awful lot of the capacity that was drawn into external audit came from local government. That is a potential risk in terms of us all dipping in the same pool and whether that will happen again.

The issue, though, is the resilience to deal with not three months of audit, but now 11, 12, 15 or 24 months of audit. Just as you think that you have it done, along comes something else like the pension valuation. It is that impact on the workforce as opposed to the resource. Wellbeing is one of our key duties as their line managers and leaders, and that is starting to have its toll.

Gerald Almeroth: Councils have always focused on making sure that they have the right resources skilled and in the right place for finance teams to deal with closing the accounts and dealing with the audit. This is normally a six-month process, not dealing with backlogs of audits from a number of years.

Q168 **Ian Byrne:** Over the last 13 years, we have seen cuts. I know myself that back office is sometimes an easy target for cuts to be undertaken. Where are we now, looking at it as a whole, with regard to the resourcing of the sector?

Gerald Almeroth: There are real pressures out there across many councils. As you say, councillors want to spend money on the things that impact on the community the most. We have pressures in London on temporary accommodation, children's services and adult social care. The list goes on.

Q169 **Ian Byrne:** It goes back to what I said before about not being able to run an effective council without an effective audit. You cannot escape that fact.

Gerald Almeroth: You have to have the right infrastructure in the body to make things work in the right way. It is a constant struggle to make sure that all those resources are in the right place. That is much more difficult in some councils than in others.

Q170 **Ian Byrne:** Just to bring it to life, have you had delays in audits at your local authority? If you have, what were the reasons?

Gerald Almeroth: Our 2021-22 audit certificate has not been signed yet. We initially had infrastructure and accounting issues, and then the pension valuation issue came out as well, which had a knock-on effect.

Q171 **Ian Byrne:** When you are sitting in the tearoom discussing why you are in this position now, what do you put it down to?

Gerald Almeroth: It was not a case of us producing the accounts in the right way. It is about the auditors being there and being able to work with us and go through their audit process. They started in July last year, like we normally would, but issues of a national nature come up and then they go off and do some other audits, and then come back with a different team of people, who then start asking different questions, or the same questions that you have answered already. Management of continuous changes in staffing on the audit teams is quite difficult.

Q172 **Ian Byrne:** That is an interesting insight. Michael or Alison, have you had delays and, if so, would you like to highlight why?

Alison Scott: One of the big things is that, once you start to get delays, things then happen—so-called post-balance sheet events. We had the infrastructure assets, which, even as districts, we had to do a lot of work on. We do not have highways. We are not a highways authority. Our infrastructure is a few benches on a pavement, and maybe a few lights in the town centre. In a national scheme of things, it will never be material, and yet my team had to put hours into proving that it was not material. It is about those events and that inability to just draw a line and say, "We are not going to worry about everything that happens after this date. We are going to draw a line in the sand". The more delays you get, the more things happen and you have to go back and look at those again.

In terms of the focus on operational fixed assets, during Covid I had one of my team on Teams with a video camera and a ruler measuring the floor areas of our leisure centres to prove that they were correct for the valuation of assets. That cannot be a good use of resources, in anybody's book; I do not think that even our auditors felt it was a good use of resources, but they are forced into that by the level of materiality and regulatory focus that they have.

Q173 **Ian Byrne:** That is good to report. Michael, would you like to add anything to that? Do you have any ruler stories?

Michael Hudson: Funnily enough, yes. I had 19 years of producing statements of accounts that were on time and were signed off on time, up until a few years ago. Ours was county hall, not a leisure centre, that was being measured with a ruler, because of that level of extent. There is nothing more infuriating than when you have had the audit come for four, five, six or however many years and give a clean bill of health and then, all of a sudden, the technical team have thrown in something that, at the last minute, will then mean that there are another three or four things that are added over the three or four months that you are then waiting for the issues. That is where a backstop date would give us that comfort.

My experience is that it has not been our working papers or our production or my assurance. It has been the additionality that has come from the firms as a result of the FRC, as a regulator, asking for more.

Q174 **Andrew Lewer:** How common have you found elector objections to be? What impact do they have?

Gerald Almeroth: They are very rare. I recall that, in London, a particular resident had an issue with parking fines. That was a particular theme of questioning for local London boroughs, but it is very rare and, therefore, there is not a lot of work involved in dealing with those generally. That is my experience. I have not had a lot of experience of that.

Q175 **Andrew Lewer:** Have you had experience of shutting them down for being repetitive, frivolous or disproportionate, or just gone with it?

Gerald Almeroth: I know that others have had that, and maybe my colleagues here would be able to answer that.

Alison Scott: Nowadays, those tend to come through freedom of information. What would have, in the past, been an accounts inspection issue or come through that way now come through freedom of information, because they can get much more background and information that way than through the accounts.

Q176 **Andrew Lewer:** Are they freedom of information requests about specifics or about the accounts that you have experienced?

Alison Scott: Freedom of information tends to be around specific areas that people are interested in or have a particular issue around.

Previously, they might have used inspection of accounts. I can recall one issue in a police authority years ago where it was a very specific issue that came to inspection, which probably nowadays would have come through freedom of information. Generally, the only people using inspection of accounts are looking for particular issues anyway, so they would come through freedom of information.

Michael Hudson: I absolutely agree. They are, in the main, specific issue-related topics. I can go back 30 years. The first one was relating to a planning application. It is that availability of and access to the external auditor as opposed to freedom of information that gives it a greater chance for credence and another avenue. I have had experience of auditors taking several years to determine an objector's point.

Currently, we have a live issue that we are dealing with, which will have cost the county council significant sums of money and has finally been decided by one of the sets of auditors and will now move forward to the types of measures that you were talking about, if that continued to persist, but it has meant delay to the audit as well.

Alison Scott: Had some of those issues come through FOI or a formal complaints process, they would have had recourse to the ombudsman, which could take action about them and do proper recourse, whereas people are sometimes using the objection process and the accounts process to get stuff that they would get a better response to by going through that channel. If something goes to the ombudsman, it can change that decision. It has powers around that decision, whereas the auditors can just say whether you followed your processes rather than the outcome of a decision.

Q177 **Andrew Lewer:** Would they have got a better response if they had just asked rather than objected?

Gerald Almeroth: There is a level of publicity that you get through objecting to the accounts. As colleagues have said, the auditors then have to do something about that. That is not to say that many issues are not without proper justification. It is an important part of the process to have that in place. If residents have real concerns about what is happening in their local authority, that is available to them. More recently, freedom of information and other requests are also available, so there are a number of ways in which the public can raise issues or ask questions.

Q178 **Bob Blackman:** During previous times, comparative data was prepared by the Audit Commission that you could look at and compare. Equally, we have had evidence that suggests that having comparative data for comparable local authorities can be very useful in decision-making. Do you make any use of comparative data at all at the moment?

Gerald Almeroth: It is really important to be able to understand where you sit in relation to others and whether your services are perhaps more expensive or more efficient. Benchmarking is a very valuable tool. Generally, what happens, though, is that you need to understand what sits behind some of those numbers in order to then drill down and understand what the rationale for those differences might be. When the Audit Commission was here, there was a huge amount of data produced, which was useful. Some people did not like it, because it created league tables and stuff like that, but you need to then get behind some of those things to understand what your own position is.

Q179 **Bob Blackman:** Where do you get your comparative data from? Is that something that you do or do you get it from particular sources?

Gerald Almeroth: There are a number of sources. CIPFA does benchmarking clubs for specific things. Grant Thornton does a particular database of information. There is a lot of publicly available data or returns that we send into Government that we are able to look at. It is something that we piece together to look at for particular issues.

Q180 **Bob Blackman:** Is there anything else that would be helpful to you to make comparisons, or any data that is not currently available in any decent format, if we put it that way?

Gerald Almeroth: I cannot think of anything in particular, but, where we have issues and we say, "We need to understand a bit more about what is going on with temporary accommodation and housing issues in London", we will quickly get together, put around surveys and create data that we can then look at and see where these issues are happening in reality.

Q181 **Bob Blackman:** But that would be your council doing that, rather than an outside body providing it.

Gerald Almeroth: Yes. We have very good links with other treasurers from other councils, not just in London but across the country. The Association of Local Authority Treasurers, which represents all of the sectors, recently did a very detailed survey on reserve levels, why they have gone up, what the plans for them are and why they are being held, so that we can have a clear narrative and understand what is going on across the country and in different sectors. If we feel that there is information that we cannot get hold of, we will generally be positive about trying to gather some of that information ourselves for our own purposes.

Alison Scott: It is important to realise that the statement of accounts does not provide that data. That comes from things like the revenue account form and the revenue outturn report, which are returned to DLUHC.

The other thing is that, to get any meaningful benchmarking, you have to go to quite a low level of granularity, so you are never going to be able to get that from a national set of statistics. In Hertfordshire, we have recently done a big study around how we will deliver waste, and that has really gone into the detail. It has been done externally within the Society of District Council Treasurers. We have input to the reserves survey. We have done other surveys around housing costs and some of the Covid costs, et cetera, where there has been a particular issue that we want to look at. By doing those individual surveys, we can get down into the nuts and bolts that really tell us the difference. All national benchmarking can do is to say, "You look slightly more expensive on this". They are flags, rather than answers, whereas that granularity gives you the answer.

Q182 **Bob Blackman:** What glaring omissions or comparisons have you come up with? If local authority A says, "It costs us twice or three times as much to do the same job as local authority B", straightaway the council taxpayers are going to be saying, "Hang on. Why is my local authority not doing the right job?"

Alison Scott: If you take something like street cleansing, which seems like a fairly standard service, how quickly are you removing graffiti? Is it within 24 hours? Is it within three days? You have to add those differences in service levels to the pure cost to get the real picture. It may be that you are providing a platinum service when your council taxpayer wants to pay for a gold or a gilt service.

Bob Blackman: Yes, or even a bronze service.

Alison Scott: You need that comparison of service levels. The simple cost per head is a marker that you are more expensive, but you need that level of detail to understand why.

Gerald Almeroth: It is about local policy decision-making as well as the local circumstances.

Q183 **Bob Blackman:** Indeed, that is what we are trying to get to. How much can you use comparative data to make policy decisions? Clearly, if you put more money into a project, you expect to get a better-quality service. That does not always necessarily appear to be the case.

Michael Hudson: The best surveys are done across societies or collectives. I do not just mean accountants; I am also thinking about the Association of Directors of Adult Social Services, ADASS, for example. There will be good surveys that we do amongst ourselves. I would go back to the RO and RA forms, which are not audited and are often completed by more junior accountants. For the first time, we will need to sign them off in September. That is data that is used by DLUHC and others to populate, for example, the Grant Thornton insights work.

Where we come across issues such as home-to-school transport, learning disabilities or safeguarding children, the surveys we can do across our professional societies yield better data more quickly. It is more real-time. We both look forward. The ALATS reserve study is looking forward. There is no way anybody can collect that data other than section 151 officers because we do not publish it anywhere else. That is where the power is in our collective and network.

Q184 **Bob Blackman:** There has been quite a lot of delay, as all three of you have said, in terms of reporting the accounts to the council. How easy is it to do any comparative data, given that those things are not published in a sufficiently timely fashion to make decisions on policy?

Gerald Almeroth: They are published, but they are not audited. They are available. They are publicly available, but we have unaudited accounts and audited accounts.

Michael Hudson: If you look at the reserves survey we did, we turned that around within two months. Nearly 50% of authorities replied. We had a conversation last week with DLUHC. We will continue to progress and improve that. That is something we can do quite quickly amongst ourselves with real-time data.

Q185 **Bob Blackman:** That is a discussion between the local authority and DLUHC. What about other local authorities?

Michael Hudson: That is also within our county. We have those conversations within our own societies as well as with DLUHC.

Q186 **Mary Robinson:** I just wonder whether comparative data and collective sharing should be seen as standard good practice. We all have local authorities—I am sure it is not only my experience—that, at the end of the year, produce a great glossy brochure that is sent out to all of the residents to tell us how well they are doing, but, without being able to compare, we are not going to know what it means. In terms of the service to the individual, rather than just to you as councils, would that not be good practice?

Gerald Almeroth: Yes. It is a good thing for data to be more open and transparent. We had that with the Audit Commission because it had a set of performance indicators and data that grew up over time. A lot of people did not like it, but, professionally and personally, I think it is a good thing to have data available. Questions can then be asked about that comparative data.

As an individual authority, we publish ongoing data year after year. You can see where the trajectory is going for one council, but you cannot necessarily see how that compares to everyone else. In our performance reporting, we try to benchmark it against the London average so you can see where we are perhaps upper quartile or lower quartile. You can get a sense of how you are doing against others.

Alison Scott: I am probably in a bit of a unique position in this because I sit across two authorities. They are both of the same political persuasion, but the priorities of the residents within those two authorities are very different. If we compared the two, it would not necessarily be meaningful to them because of that. What is far more important to them is, "You said you were going to do this. What have you done? Have you actually done that?" Comparative data has a place, but it does not recognise that the electorate have different priorities and they have different views on which services are the most important within the area. Comparative data has a place, but you can get too caught up in PIs and not enough in local democracy and what matters to local people in local areas.

Michael Hudson: For me there is also a question of purpose. There is comparative data to examine policy decisions. That might be a waste PFI or a sufficiency placement for care. Different local circumstances will give you different results. You can always examine that.

There is also the Oflog conversation related to the early warning signs and triggers such as the reserves. We also have to be clear about what we are collecting it for and what the capability of that data is. As I say, a lot of the data is backward-looking. You can look at a policy decision, but, going forward, with something like the early warning sign measures, do you have sufficient information to have the ability to look forward from the comparative data?

Q187 **Chair:** I have one final point. Please give us brief answer, if you could. We have talked about the backlog quite a lot. Is this an opportunity simply to say, "Let us draw a line under this. A lot of the audits have been outstanding for some time. Let us simply agree them now with a modified opinion, perhaps with a commentary about the valuation of assets, which is what is delaying the audits and causing problems"?

Alison Scott: For me, there are three things you should do. First, you should ignore post-balance sheet events. You should draw a line and not take those into account. Secondly, you should rely on our valuers for the valuation of assets and not do that work. Thirdly, you should not worry about the IFRS 19 pensions valuations. If you do that at the end of March 2024, that value is not going to change. It has not changed any of the entries that have gone before because it is always a point in time. You can just skip it.

Michael Hudson: I have the data from PSAA from a month ago. There are 36 audits outstanding from 2015-16 to 2019-20 and there are 92 audits outstanding from 2021. They are a mixture of poor record-keeping—let us not shirk from that; there will be a number of cases where that is the case—issues related to objectors and issues that are related to that in terms of valuations.

If we are looking at a disclaimer opinion or a qualified opinion in those cases, there is room for that. Where audits have started, there needs to be pragmatism. That might be an except-for or exempted opinion in relation to the balance sheet items, which would allow us to move forward. There is absolutely an answer in there. We need to have that greater analysis of what the issue is in a grouping across those years.

Gerald Almeroth: Yes, it is not an ideal situation. We have to make some compromises. I would not want to see hundreds of qualified accounts for councils, though. That would not be appropriate. If there is a disclaimer, that might be a way through. Auditors should not shirk their responsibilities, though, if they feel there is an issue in a particular council. That work should continue and should happen.

There may be other consequences, but we know that some councils have private borrowing through private banks. Therefore, an audited set of accounts is a prerequisite for that to continue. There could be knock-on consequences for that as well.

Chair: No one is suggesting that we go down that route, where there are problems around the audit like the valuation of assets, pensions or whatever.

Thank you all very much for coming this afternoon and giving evidence to the Committee on what is a very important subject.

Examination of Witnesses

Witnesses: Councillor Abi Brown, Councillor Tudor Evans and Councillor Richard Wenham.

Q188 **Chair:** Thank you all very much for joining us this afternoon. Just to begin, could you say who you are and the council you are representing today?

Councillor Evans: I am Councillor Tudor Evans. I am the leader of Plymouth City Council and I am representing the board of the LGA today.

Councillor Brown: I am Councillor Abi Brown. Until May of this year I was the leader of Stoke-on-Trent City Council. I am the chairman of the board of the IDeA at the LGA.

Councillor Wenham: Good afternoon. I am Councillor Richard Wenham. Until May I was the leader of Central Bedfordshire Council. I am now leader of the opposition. I am also vice-chair of the Local Government Association resources board.

Chair: Thank you all very much for coming, both in your council capacity and also in your wider LGA capacity as well. That is helpful.

Q189 **Kate Hollern:** There have been various views on the primary purpose of local authority accounts, but, as elected members, what do you think the purpose of accounts should be, particularly in supporting local accountability and democracy?

Councillor Evans: As has been said by previous speakers, assurance and reassurance are very big parts of it. That goes for local authority members too. Do not forget that we make decisions on the basis of expert advice. You do get exceptions to the rule about accountants coming on to councils, but very rarely does that happen. We rely a lot on expertise. We rely a lot on our auditors.

Part of our problem is that there are 545 outstanding audits at the moment as of 31 March. It is very difficult for local authorities to talk about assurance when we have that backlog. Part of my reason for wanting to speak to you today is to give you, in the clearest possible terms, a warning. This is a crisis in audit at the moment. I can put it more strongly than that, but that is about as strong as I want to go at the moment.

Why does it matter? It matters because we cannot assure the public if those accounts are not audited. There are question marks over this. I know we can put unaudited accounts in the public domain. I know we publish it; we take it to council; we show everybody what we have got. You need that tick. You need that tick from your auditors to say that you have done everything right, that the council is working properly and that the finances of the council are working properly.

That is why the message I want to convey to you today is that we need your help. We need your help, in the report you will give at the end of all of this, to tell somebody that we need to be given a break so that we can get audit back to normal in this country. In local government land, it is not at normal at the moment.

Kate Hollern: You feel it is detrimental to democracy.

Councillor Brown: I would agree with the points that Tudor has made. The point is around assurance. If you have a scenario where accounts are not audited promptly, as an elected member you do not have that reassurance to convey to your residents. In some cases, you are going back quite a few years, potentially before you were elected, before the arrival of certain officers or before major schemes. As one of the previous panel members said, to some degree you are looking at things that have happened in the past that have almost become irrelevant. What assurance are you able to offer if you are not able to look at them in a timely way?

Councillor Wenham: I concur with the points that my fellow councillors have made. Coming back to your original point, what is the use of these accounts in terms of local accountability? Clearly, timeliness is absolutely of the essence, which has been touched on, but we also need to look at the role that backward-looking audited financial accounts play in providing assurance as part of all the other internal council processes.

Those accounts are subject to public scrutiny through the year. In the case of our council, quarterly management accounts are published. Those go to scrutiny, the audit committee and full council. They are much more readable and understandable both to the majority of councillors, many of whom lack financial knowledge, and members of the public and the press who are interested. When we get to the end of the year, we have the financial audit. That is confirmation that the management report and accounts were following the right trends, that there was nothing hidden there and that they were open. That is important.

When we come to the use of the specific statement of accounts, this has become incredibly detailed over the last few years. Our statement of accounts is now more than 200 pages. It has grown by more than 50% in the last 10 years. To expect the vast majority of the public, some councillors and others to read through those 200 pages and understand it is asking quite a lot.

One of the issues is about whether we can make that more understandable. Can we produce a summary at the beginning of the statement of accounts that allows a layperson to interpret the key points more easily while leaving intact all the important detail that goes into those accounts and is the basis of the information that is to be audited? That would enable those with detailed knowledge, be they council officers, councillors with a financial background or indeed the public, to dig into those and review them as appropriate.

Of course, there is already a lot of openness around the accounts due to the requirements introduced by various Governments to publish accounts and to have open public review, where members of the public can attend and dig through the detail, even down to the level of individual invoices, expense claims and so on.

Local government is perhaps already the most open of the public services in terms of the information that is available. Unfortunately, some of that information, if not misused, focuses on the wrong things. We find that people are very interested in minutiae of councillors' allowances, the chief executive's salary or items like that, rather than focusing on the big issues such as the cost of children's services or whether a particular business plan to buy an asset was realised in full or not.

It is about somehow managing the need to know information and getting a focus on the things that are really important to the financial sustainability and the success of the council.

Q190 **Kate Hollern:** There are severe challenges in this area. If I can just come back to you, Tudor, for a moment, how are local authorities falling short of achieving their objectives? As Richard was saying, there are other measures on your budget control. There are so many rules and regulations behind this. Where is it falling short? How could it be improved?

Councillor Evans: At the risk of repeating what we said before, first and foremost, the obvious problem is that the statements are too long. They are a daunting read if you are an experienced reader of financial reports, let alone for the average punter, and that includes the average councillor. They have a lot of superfluous information in them, to be honest.

Let us take the valuation of capital assets, for example. This has become an obsession lately. Why do I, as the leader of the council, need to know the cost of the part of the A379 that goes through my city? Am I going to sell it? Am I going to rent it out to somebody? Am I going to produce a toll bridge all of a sudden? Why do I need to know the value of it? What I need to know is how much it costs to maintain every year and whether I have enough money to maintain it. That is all I need to know. For the life of me, I cannot understand why an auditor needs to know that.

A lot of the problem is that they do not just ask the finance people. They will go into the asset management department; they will go into the economic development department; they will go into the planning department. They will be bothering a load of people, who are already overstretched, to satisfy their curiosity. To be honest with you, there is not really anything to be gained by this. There is just a lot of time and effort and money lost. It would be really good if we could get off that particular pot and get back to the job of assurance.

Councillor Brown: Tudor has made a very good point there. Mine will be a bit dry and probably less exciting. Local government is hugely complex, is it not? Nobody would design a business that delivers, in many cases, 700 services that touch the lives of every one of our residents. We are governed by a huge number of different frameworks for each of the services we deliver, from adult social care and children's social care right the way through to highways and everything else in between. That makes it incredibly complex.

Local authorities have been in operation for over 200 years, and there is a huge amount of complexity within the practices that are there. That means making it simpler is a huge jigsaw puzzle to start to unpick. I am mixing my metaphors a little bit there, but you get the picture. It is hugely complex.

Where would you start with all this? Again, going back to Tudor's very well-made point, local authorities are already overstretched. Where would we point to to start that? Which service would you start with? How do you get there? We would all aim and hope that we could make account simpler, but, given the simple complexity of the organisations that local authorities are, is that really where we should be focusing our attention? Is that something we perhaps ought to be talking about with partners and starting to unpick slowly in specific areas?

Councillor Wenham: Again, I concur with the previous comments. I would just add to Councillor Brown's comments about the complexity of accounts. Local government accounts have grown up over many decades. The system is important because it looks at things like the intergenerational fairness of charging assets, for example, to ensure they are not all charged in a particular year or a short period of time. We are trying to balance something like that against the IFRS standards, which have been talked about by the previous three speakers.

Where there are issues or friction between the interpretation of those and the way local authority accounts are put together, there is a case for asking statutory bodies such as CIPFA, the Treasury and DLUHC to be looking at whether there should be some statutory overrides in some of these areas, which would allow some simplification of some of the detail that currently goes into accounts. Clearly, that is a matter for experts and not for those of us who are here today, but it definitely is something that should be raised.

In the past there have been some attempts at producing reports on the simplification of local authority accounts. Most recently, CIPFA produced a report in 2019. There have been some others in the past. Perhaps we need some renewed urgency behind reviewing the complexity of accounts and an independent authority to bring back some suggestions that could be introduced to make them shorter, simpler and more accessible.

Q191 **Kate Hollern:** Richard, on that point, would it be more beneficial for councillors if there were simplified reports that could demonstrate how much was spent on each service and how much of council tax went towards that service?

Councillor Wenham: In our council, that information is readily available on a quarterly basis in the management accounts that are sent to scrutiny every quarter. As I mentioned earlier, those are much more readable than the statutory accounts.

We should not lose sight of the purpose of the statutory accounts as being the financial accounting checklist, not the management accounts. Therefore, they must be accurate and appropriately audited. When we talk about simplification, we need to be careful that we are not dumbing them down. They must still be absolutely appropriate for the task in hand, which is independent assurance that the financial reports of the council are fair and accurate.

Councillor Brown: I would agree. There is a huge amount of support for councillors within their local authorities, whether that is provided by themselves or indeed by the LGA. Audit is one of the areas where there is specialist support available for chairs of audit and committee members. There are almost two tiers there.

As Richard says, almost every local authority will in some way or other look to explain on a very simple level where every penny from your £1 of council tax goes. For reference, in most upper-tier authorities at least 60p goes on social care. That is not an unusual figure.

I can quote it because it is something we do talk about, to evidence the understanding of that versus the complexity of what happens on the audit committee. As Richard says, it is important to be able to demonstrate that you have two things going on: you have the basic version, in a way, for people and the more complex element around that. Therefore, the support needs to be there to ensure we are able to support residents to understand that.

Q192 **Kate Hollern:** The complexities could be reduced while still providing the information that is required.

Councillor Evans: Local government is quite accountable to a lot of places. There is a lot of complexity. Most of the stuff we do these days is in partnership. Most of it involves a multiplicity of funding streams. We are accountable for those regularly. You have to account to the funders. You also have to account to audit and governance in your own authority. A lot of the time you have to do scrutiny as well. There is no hiding place in local government for anybody at all.

Another thing that is really important, which people need to remember, is around risk management. Local authorities are intense champions of risk management. Our modus operandi is about managing risk. It is very difficult at the moment. If you want to do anything exciting, you have to make sure you have covered everything off and you have mitigation. You have to keep reporting back on that. You have risk management in the cabinet meetings, in the scrutiny environment and in full council. You have it everywhere.

As I say, audit is one element of a number of elements that are going on throughout the council year. We really check ourselves, and we are open and above board about it.

Q193 **Bob Blackman:** In your view, what should be the purpose of audit? A lot of people will be looking at this. We heard evidence earlier—I do not know whether you heard it—about Westminster City Council. They have 233 pages of detailed accounts and people are scratching their heads thinking, "What is this all about?" What is the purpose behind all of it in the first place from the public's perspective?

Councillor Wenham: The primary purpose is to provide assurance, as I have mentioned already, that the reported numbers for the council are fair and accurate. That is a clear statement. Ideally, there should be no qualifications; there should be a clean bill of health. That is the primary level of assurance to members of the public, who may not be particularly interested in the minutiae of local government finance.

The next purpose is to provide a more detailed assurance to councillors, who are ultimately responsible back to their electorate, that what is being presented to them by officers and so on is a fair reflection of the position of the council.

There are also some secondary elements. The audit function is required to look at risk, it is required to look at value for money and it is required to consider the council as a going concern, which is perhaps a somewhat strange concept. It looks at value for money in terms of whether money is being spent appropriately rather than determining the actual amounts being spent. We have to be very careful about crossing from audit, which is concerned with checking, into the political arena. It is for councillors to decide how the money should be spent.

Bob Blackman: Councillors decide how the resources are applied.

Councillor Wenham: Yes. That is a clear boundary. It is important for the audit function to report on that. For example, are CIPFA’s prudential indicators being applied properly in treasury management? Recently we have seen a number of issues with councils where capital investment has been a significant problem.

Those are the critical issues. The other important point, which we have all made, is that timeliness is of the essence. Having accounts that are years out of date is a pretty pointless exercise. I am pleased that our council has managed to get its accounts signed off every year according to the timeframe, by 30 September, which means we are looking at accurate and confirmed information on a timely basis.

You can get further and further behind. It is a treadmill; you never catch up. I really feel for some of these councils that have accounts that are years behind. It is really important that we find a way, between local government, central Government and the professional associations, to unpick this issue of accounts that are years out of date.

Q194 **Bob Blackman:** We have already heard about the quality of accounts and therefore how difficult they may be to audit. What about the aspect of spotting any form of corruption or improper use of council expenditure? You have not really mentioned that in your reply, but I consider that to be quite an important aspect.

Councillor Wenham: It is a key part of reviewing the work that has gone on within the internal audit function of the council. Auditors rightly have access to all information regarding contracts under the terms of commercial confidentiality to which they work. There should be no pushback from authorities in providing that information.

From time to time, auditors do pick up on things and query the accuracy of invoicing or the payment of invoices against work and so on, as they should do. That is a much more value-added task than worrying about the cost of a road. I do not want to harp on about the things that have gone on, but they need to focus on things that are material to risk in the council and that might affect the council’s effectiveness going forward. Those are the operational issues of spending, investment and returns on investment.

It is also important to achieve efficiencies, if the council has an ambitious programme to balance its budget.

Q195 **Bob Blackman:** Should the audited accounts be presented to full council for a proper review process?

Councillor Wenham: The accounts come back to full council in our council, but only once they have been through detailed consideration in the audit committee. Much as it is for this Committee to spend detailed time looking at this particular issue, it is for those committees of the council to spend time going through the detail, questioning the auditors directly and questioning the detail of the accounts.

Yes, it can be reported to full council, but I would say that full council is not the place to have that detailed debate.

Councillor Brown: I largely agree with Richard. The other element perhaps to touch on is that the audit is somewhere where residents can raise their concerns within the parameters of what the external auditor is able to look at.

You need to keep that in proportion, though. As we talked about earlier, there are certain things that residents want to delve into that perhaps are not necessarily the best thing for external auditors to spend their time on. However, there are some really good cases where armchair auditors, for want of a better word, have raised things that are perfectly valid and in some cases started to highlight perhaps issues in the accounts. Again, that is an important purpose of having your accounts audited by a true and fair individual.

Q196 **Bob Blackman:** From a local resident's perspective, they may feel that people are not listening to their concerns and they may think the auditors may be able to identify what these issues are. Is that a proper role for auditors to be taking on?

Councillor Brown: I think so, as long as it is within the parameters of what the auditor is there to do. That is always one of the challenges with local government, in terms of what is pertinent and what is not. Is something perhaps a policy decision versus, as Richard said, a question of value for money? Within the context of value for money, there is the definition of value for money that an external auditor would apply versus what somebody on the Clapham omnibus might think is value for money. As long as it is within the context of external audit, yes, it is a good use of their time. Clearly, they would be best placed to answer that.

Councillor Evans: You have a few other checks and balances available to you if you are an inquisitive resident. There is the ombudsman. There is turning up to meetings and asking questions in public. Most councils now provide the opportunity to do that. You can even send emails to councillors.

It is important to remember what happens at full council in most places. It is a bit like cock-fighting; it is not very much like a courtroom anymore. Most of that stuff is done in committee. Most of that stuff is done at scrutiny. Most of that stuff is done at A&G. Our A&G is not atypical. We have two members of the community—they are upstanding independent people—who sit there to offer the voice of reason to all of the political squabbling that might otherwise be going on.

We have these checks and balances all over the place. We can slightly overdo what the annual audit is all about. It is really quite focused. We have already spoken about this, but on the asset management side of things it is important to stay in your lane a bit. It is very important that audit does not stray into policy and politics. It is really important that they keep focused on the money and making sure that the fiduciary duty of the council and the councillors is being exercised. That is their principal job, not to make comments about taxation or about whether you made the right decision to buy that shopping centre. That is not the job of audit and should not be. We should not encourage them.

Q197 **Bob Blackman:** In virtually every budget I have ever seen, there are savings to be made. Should the auditors look at whether those savings have been made or not and what the impact has been?

Councillor Evans: I would not say that was an auditor's job.

Bob Blackman: I was just asking the question.

Councillor Evans: We are in a situation where, as Richard said earlier, we have to balance the books not at the end of the year but at the beginning of the year. All the annual council budget meeting says is what the gap between income and expenditure is going to be and how much tax you are going to rate. Fundamentally, that is the legal position.

Unlike any other part of the public sector, we have to balance the books. We cannot have overspends; we cannot have underspends. We have to have balance. You have to put it somewhere or take it from somewhere at the end of the year. Like you say, we are in the spotlight all the time. There is no other part of the public sector that is under the intense scrutiny that local government is under.

I have to get back to this thing about where we are right now. Where we are right now is that there are 545 council audit sheets that are not signed off. There are more to come, potentially, later on this year. That is a huge blockage in the system. As representatives of local government, our job today is to convince you that we need your help to try to unblock this. There are accounts that are two, three or four years old that have not been audited yet. Completing those audits now, before we have completed this year's or last year's, is quite pointless at this point. We need to get on with the job of auditing what is now in front of us, so that we can give immediate assurance about what is happening now in councils.

Q198 **Bob Blackman:** You have made that plea, which we have heard. What needs to be done to get accounts signed off properly?

Councillor Evans: The first thing is, as we say, to not get obsessed by the past for the time being. That is what I am trying to say.

Q199 **Bob Blackman:** There are risks involved in that. If councils have not kept their books properly and that is the reason for the audit not being signed off, clearly that is a concern for local people.

Councillor Evans: Sometimes that is the reason, but it is not the reason in every case, by a very long way. That is part of the problem. Part of the problem is that there are still unanswered questions that are being asked as a result of mission creep. I am talking about things like the audit of assets and all of that work.

There are basically three things that need to be done. First, we need to deprioritise and not produce value for money statements for any year except the most recent year. We should not produce them for three years ago. It does not matter what the VFM was three years ago. It is no use to anybody. It is really not any use at all.

The National Audit Office issued guidance on this subject very recently, but we know there is still patchy uptake of that NAO advice throughout the audit service. You will have different responses in different councils from different auditors. We need certainty and we need consistency in that. Again, it would help us enormously if you could just give them a little nudge in your report and say that some consistency throughout local government from our auditors would be welcome.

There is another thing that has happened, which is about the triennial pension valuations. This is a specific point for the 2021-22 accounts. It does not go way back, but right now it is in our face. Again, CIPFA and NAO have pontificated about this and issued guidance on this. We could really do with auditors following that advice as well. They have got us jumping around when we just have this one year, 2021-22, to deal with.

We need to prioritise and concentrate the audit effort on the most recent years. We need to deprioritise and accept the balance sheet figures for earlier years, if they do not have an impact on decision-making or council activity or if they have been superseded by more recent figures. Again, this applies to pensions. It applies to what I was saying about non-investment assets. It will save time and audit work. If we are not adding to the problem, if we are just saying, “Halt on the old stuff; we will come back to it later”, and if we are getting on with the new stuff, local government can move forward. At the moment we feel like it is Groundhog Day.

Q200 **Chair:** I just want to pick up one small point. Tudor just said that it is not the auditor’s job to check whether savings have been made. I just want to refer back to the inquiry the Committee did into Croydon. That was precisely the problem. Every year they agreed to make savings in social care, and at the end of the year they had not. Surely, therefore, auditors have to be interested in that. They should have been flagging that up, should they not? They could have stopped the authority running into a considerable mess.

Councillor Wenham: The question is not so much about auditors commenting on whether particular efficiencies have been achieved or not. It is whether, in the round, the inability of a council to control its overall budget, whether that is by gaining more income or achieving particular efficiencies, means it starts reducing its reserves, in particular its general reserve, down to a level that would cause concern against the CIPFA guidelines.

Every year, as part of the council's budget, the section 151 officer has to comment at length about the sufficiency of the council's reserves, and in particular the general reserve. It becomes a matter of risk if the general reserve starts being reduced. Personally, at that point I would expect the auditors to make a comment about that being as a significant risk rather than individual efficiencies, which are often a political decision.

Q201 **Andrew Lewer:** We have touched on a little bit of this already, but how is local authority audit falling short of its desired purposes? What could be done to address that? Should all accounts with an outstanding audit opinion be published with a modified opinion and a commentary about the work that could not be finished in time?

Councillor Evans: I was really asking for that. We publish the annual audited accounts, and we are capable of upgrading and uprating depending on what subsequent information comes to light.

My problem continues to be that we cannot get past the starting line on those earlier accounts. That is why it is so important to draw a line there. We are not saying, "Forget about it". Nobody is asking for that. We are saying that we need to get this later stuff done. It is like dealing with your own accounts at home. You might have a few outstanding accounts from a year or two ago, but sometimes you have to deal with what is in front of you.

That is why we are asking for this pause on the earlier stuff. We believe that that will enable local government to get out of the logjam we are in and then get back to dealing as normal.

Q202 **Andrew Lewer:** Would it help to have a statutory deadline in the future?

Councillor Evans: Part of the problem is that, at the moment, most of us are running around trying a deal with everything. How can I put it? Everybody was going along fine until Covid. That had a bit of a deleterious effect on us all in terms of capacity and various other things. Auditors were not able to come in and audit in some places as well. We are still recovering from that.

Councillor Brown: This has been caused by a range of issues. As Tudor references, Covid was a big moment. We were all working out how to carry on doing things as normal. There is an issue there.

There is a variety of other issues too, some of which the sector, along with its partners, has tried to deal with to a degree. There is a limited number of firms within the market. There is a shortage of suitably qualified auditors as well. We have talked at length about the tighter and stricter regulation of auditors. Of course, Covid on top of that delays it all. There was also reference to the value for money statement. Again, we have talked about that a little bit in terms of the pause around that.

It is important that we move forward. You are looking at accounts that are two or three years out of date. How much value is there to be sought in using our already quite limited external audit resources to chase something that is now two or three years out of date? We can move forward from that by ensuring we are in a position to look retrospectively at where we are in the most appropriate way. We do not necessarily need to look at things like the value for money statement from three or four years ago. There is going to be a limited ability to learn lessons from that.

Q203 **Andrew Lewer:** Back to Bob's point, there is a moral hazard in a sense. The authorities that have done the right thing, got everything done and got it all signed off have gone to a lot of trouble and spent a lot of time to provide that reassurance. Under this proposal, we would be saying to the authorities that have not got everything done, "You have not got it done. You have not done it properly, but we will just forget about that and let you carry on".

Councillor Evans: It would be right to say we are not asking everybody to forget about it. We are asking people not to obsess about it and not to therefore let it get in the way of getting on with auditing the current situation.

The prices of food, oil, steel, Brexit and labour have gone through the roof. Those VFM studies from two or three years ago are not worth a hill of beans. The hill of beans is not audited either, come to think of it. We need to get past that and say, "Let us cut out the things that are absolutely unnecessary at this moment in time and focus on what is necessary". All we are asking for is a prioritisation of the things that need to happen in order for us to get loose on this.

The idea that local government today is saying, "Can we forget about the past completely?" is wrong. If I or anyone else has given you that impression, that would not be the right impression. What we are saying is that we need to get the current year just gone out of the way and then we can start to reset it back to normal. We want to get back to normal. Everybody wants to get back to normal.

Councillor Wenham: If I could just add to that, the point you raise about moral hazard is the key one. If I were in the position as a council where everything had been done, the accounts had been signed off internally and gone through all the processes and the council was simply waiting for the auditors to catch up, I would be aghast at the idea that there should be some qualification on the accounts through no fault of the council.

It is a completely different situation if the concerns that have been identified in terms of the information provided by a council to auditors mean that something cannot be signed off. In that situation, we are potentially talking about material impacts in the finances that everybody rightly should know about.

It is quite difficult to say that there should be a blanket forgiveness of accounts that have not previously been signed off. It should be approached with caution. We need to be really careful. The points about pension valuations and the value for money statement have already been made. The guidance has already been issued for those. It is important for auditors to follow that; it will simplify the process. Just giving some sort of blanket sign-off would be difficult for the many councils that have achieved audit on time.

Q204 **Chair:** I want to ask about financial expertise amongst councillors. How many of your councillors read the accounts, audited or unaudited?

Councillor Wenham: Shall I start?

Councillor Evans: You have read them, Richard. I know that.

Councillor Wenham: Yes, I do read the accounts. It is probably important to look at those councillors that need to have a detailed understanding of what is going on within the accounts and those councillors that need to have more of a qualitative understanding. That is certainly provided in our council by regular quarterly reports. Those are essentially management accounts that go to scrutiny. They have a lot of narrative about them and they are relatively short.

There is a set of councillors—the executive, the chair of audit, the members of the audit committee and those councillors involved in financial scrutiny and others—for whom there should be consideration of a different level of training to enable a more mature understanding of what goes on.

We already have a precedent for that in terms of pension boards and pension committees. If you are a member of the pension board, statutorily you have to undertake formal training about your responsibilities. DLUHC is currently consulting on extending that to members of the pension committee. It certainly seems to me, at least personally, that there should be, if not a statutory requirement, certainly great encouragement to provide some additional formal training for those councillors that need to have a better understanding not only of the statutory accounts but the whole framework of local government finance.

As we all know, it is a very complex area. It is not something that directly translates to the past experience of even many financially aware councillors, which is often in the private sector. They have to come into the public sector and local government and adjust to the accounting norms within the public sector.

Councillor Evans: I must confess that I do read them. I was involved in audit and governance in my council for quite some time. Therefore, I had to read them, understand them and ask intelligent questions about them.

Scrutiny chairs, scrutineers, read them as well. There is a lot of training going on in local government on the quiet. Those chairs and those councillors who have to have deep knowledge have a lot of training available to them through the Local Government Association. We run very detailed courses, residential day courses and all sorts of courses to get people in the zone and in the groove.

Although it would probably be a great big fib to say that everybody is intimate with all the accounts in their authority all the time, there is a significant number of people who have to and do treat them with diligence and proper training.

Q205 **Chair:** The cynic in me might say that a lot of councillors who are on these panels scrutinising things do not necessarily read the accounts; they read the officers' interpretation of the accounts. Sometimes those can be slightly different. The officers are the ones who might have mismanaged something and who want you to look at it from their point of view.

Councillor Evans: I must confess that, when I go to other local authorities as part of peer challenge stuff, I make sure we have really good discussions with the monitoring officer and the 151 officer about what is in those reports.

Again, I can only speak for my own A&G, but I know we give the auditors quite a going over in those meetings as well. That is quite important because you need to be assured about the assurers. Those are not places for sweeping things under the carpet. Those are places where you have to lift the carpet up and have a really good poke around. That is what we do. Those opportunities are there for a reason. We are the guardians of the public purse. We are the guardians of public opinion. We go in there all guns blazing on behalf of the voters, and we need to make sure we have done a thorough job. We take it very seriously. That fiduciary duty is a prime directive for councillors.

Councillor Brown: The complexity around how audit sits within your local authority also plays into this. The head of the audit function normally has a dotted-line responsibility directly to the head of paid service. If you sit in an audit committee, you will find that the head of audit is presenting the reports, not the section 151 officer, because there is a separation between them.

As Tudor says, the role of the external auditor within the committee is often quite interesting. They will often answer the questions of the committee and also present the reports. In terms of the interpretation of the reports, the external auditor will give their opinion. I chaired audit for 12 months. In my experience, again, the external auditor will happily have a conversation with you as the chair of audit. Indeed, having been leader of the council and portfolio-holder for finance, I have had conversations with the auditor on my own too. To suggest they are in a space where you cannot have an independent conversation is not necessarily true either.

Councillor Wenham: If I could just add to that, it is exactly the same in our council. The auditor will come along to the audit committee and present their opinion on the accounts at the same time. In the same meeting, the 151 officer will present a summary—a lengthy summary, I would add—of the accounts as well. This is all open. The auditor is there listening to the 151 officer at the same time as committee members are there to ask questions. It is quite an open process. There is an opportunity for robust debate.

Q206 **Chair:** The chair of the audit committee is quite an important individual. How should they be appointed?

Councillor Wenham: In our council, they are appointed by council as the chair of a committee. They cannot sit on any other financial committees. You cannot be on the resources scrutiny committee and be on audit because there will be clearly a conflict of interest.

I might hazard a guess that you are leading on to whether an independent outsider should be appointed to chair the audit committee. The Local Government Association has provided some comment about that. Certainly, it is not something our particular authority supports because of the difficulty in getting a truly independent and fully qualified individual who is then also democratically accountable. Ultimately, the councillors are accountable to their electorate. If you have an independent chair of the audit committee, you are losing that democratic accountability. That is different to making sure the chair of the audit committee is suitably qualified and trained, which is a must.

Q207 **Chair:** What about independent members on the audit committee, if not independent chairs?

Councillor Wenham: Yes, absolutely.

Councillor Evans: We have them. They are hard to recruit sometimes, to be honest, but we have landed on our feet at the moment with ours. That has not always been the case. We are asking a lot of them, are we not, to get down in the detail and put their name out there? It is difficult. It is important for us. It gives that independent assurance that might otherwise be missing.

Councillor Brown: In the authorities I have experience of, it generally tends to be an opposition member who chairs audit; that is unspoken custom and practice. Certainly, in my experience, it is held in quite high esteem. The chair knows they have quite an important role. They are treated with the respect required of them by the section 151 officer and indeed by external audit. Therefore, they go through huge amounts of training and really do fulfil that role of holding to account around what is required.

I would again concur with Tudor. It is important to have independent people on there, but it is sometimes quite difficult to secure them.

Q208 **Chair:** Do you all have opposition councillors chair your audit committees?

Councillor Wenham: We did not, but we do.

Councillor Evans: We never have. I am not saying we never will. It is important that the administration does not chair it so there is not that conflict. We have a very powerful scrutiny process on budget and audit as well. We do very deep dives all the time.

Chair: Thank you very much indeed for coming this afternoon to give evidence to the Committee. It is really appreciated. We have identified this as an important subject, but it is also a very important subject for you, as you have clearly indicated in your answers today.

Councillor Evans: I would just like to say one thing that we did not mention, which is about PSAA and its job on the last round of contracts for audit. Everybody has an auditor. Every council has an auditor. We were worried about that in terms of capacity, and it has made that happen. It would be wrong if we did not acknowledge the work that it did on this round of procurement.

Chair: Can it do it again? That is the question. We will not ask you to answer that one at this stage. Thank you very much for coming and for your evidence today.